

PERAC AUDIT REPORT



Springfield

Contributory Retirement System



JAN. 1, 2004 - DEC. 31, 2006



TABLE OF CONTENTS

Letter from the Executive Director	I
Explanation of Findings and Recommendations.....	2
Statement of Ledger Assets and Liabilities.....	10
Statement of Changes in Fund Balances	11
Statement of Receipts.....	12
Statement of Disbursements.....	13
Investment Income	14
Schedule of Allocation of Investments Owned.....	15
Supplementary Investment Regulations	16
<u>Notes to Financial Statements:</u>	
Note 1 - Summary of Plan Provisions	19
Note 2 - Significant Accounting Policies	26
Note 3 - Supplementary Membership Regulations.....	27
Note 4 - Administration of the System	29
Note 5 - Actuarial Valuation and Assumptions.....	30
Note 6 - Membership Exhibit.....	31

PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

DOMENIC J. F. RUSSO, *Chairman* | A. JOSEPH DeNUCCI, *Vice Chairman*

JOSEPH E. CONNARTON, *Executive Director*

MARY ANN BRADLEY | PAUL V. DOANE | JAMES M. MACHADO | DONALD R. MARQUIS | ROBERT B. McCARTHY

September 16, 2009

The Public Employee Retirement Administration Commission has completed an examination of the Springfield Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2004 to December 31, 2006. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission, in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC are on file at PERAC and listed in this report.

The examination of the Springfield Contributory Retirement System commenced on August 23, 2007 and was originally suspended on November 29, 2007. This action was based on our observation of weak financial controls, particularly concerning cash, between the Retirement System and the City Treasurers' office.

Subsequently, the Board hired two consulting firms (L.R. Wechsler, Ltd. and Financial Advisory Associates, Ltd.) to review its operations and finances. Initially, it was decided to expand our examination to include the 2007 financials. However, currently, these consulting reviews have not been completed. This examination is limited to the period referenced above.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission, with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiner Robert Madison who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



EXPLANATION OF FINDINGS AND RECOMMENDATIONS

I. Cash Reconciliation

The Springfield Treasurer's Office has not provided the Springfield Contributory Retirement System with a complete and formal reconciliation of the retiree payroll bank account. At the start of PERAC's examination (August 23, 2007), it was determined that the monthly payroll, in excess of \$4 million, was not reconciled for 20 months (since January, 2006). At the conclusion of this examination, the Springfield Treasurer's Office has not reconciled the retiree payroll bank accounts.

It has been repeatedly demonstrated that the City Treasurer's Office does not inform the Board about major decisions. For example, when bank accounts have been in use for long periods of time or when bank reconciliations have raised issues, it is a standard practice to close out old bank accounts and institute new bank accounts. The City Treasurer and City Auditor stopped using the old bank accounts as of June 30, 2007 and opened new bank accounts as of July 1, 2007 – without the knowledge of the Board or the retirement staff. It is also accepted practice that the movement of all funds in the old bank account be frozen to allow the funds to stabilize. On August 1, 2007 \$700,000 was transferred from the existing bank account to a new bank without the knowledge or consent of the Board or the retirement office staff. An approximately \$300,000 positive balance still remained at the old bank account.

Recommendations: The City of Springfield's Treasurer's Office is the custodian of the Springfield Retirement System's funds according to G.L. c 32, § 23 (2)(a). Furthermore, Regulation 840 CMR 25.13(6) states that the Treasurer, as custodian of retirement funds, must perform a monthly reconciliation of retirement system cash accounts and copies of bank statements and their reconciliations must be promptly provided to the retirement system each month.

This is the fourth consecutive three-year examination by PERAC where cash issues have arisen in the Treasurer's Office and the Springfield Retirement System. Because Springfield has inappropriate financial controls, it is the recommendation of this report that the Springfield Retirement Board hire an independent consultant, to report directly to the Retirement Board, to review cash starting with December 31, 2006 and report the results to the Board and to PERAC.

This review must be in three parts:

- a. Prepare a monthly cash reconciliation starting with January 2006;
- b. Prepare a detailed analysis of all transfers between financial institutions; and;
- c. Prepare a detailed analysis of all adjustments or reconciling items.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

It must be further noted that the Board voted unanimously on March 28, 2005 to have “an annual independent audit”; however, as of this audit date, annual independent audits directed by the Board have not occurred. A written Supplemental Regulation should be included in Springfield’s Investment Supplemental Regulations to require an independent Certified Public Accountant to monthly perform a reconciliation of all cash accounts (including dispositions of outstanding checks, fund transfers, all adjustments including voided checks as well as an annual operational review of procedures and policies). This policy is in addition to monthly reconciliations by the auditing firm that verifies the cash reconciliation and should be conducted by a firm separate from the one the city uses for their annual audit. The audit must be reportable only to the Board. A mandatory audit initiated by the Board will help to prevent these cash issues from re-occurring. Another productive measure would be to add to the Board’s monthly minutes a section entitled ‘Outstanding Consultant Issues’ to track the progress of consultant recommendations.

Board Response:

The Springfield Contributory Retirement System (SCRS) has contracted with independent consultants to reconcile all bank statements and general ledger activity from January 1, 2006 through December 31, 2008. The reconciliations have been completed and have resulted in certain adjustments to prior periods which will be reflected in our December 31, 2008 end of year report to PERAC.

In order to address this problem going forward, we have consulted with Melanson and Heath, CPA's to assist both the City Treasurer and the SCRS staffs to put in place standard operating procedures to be followed each month to insure the reconciliations are performed timely and accurately.

In regards to your comment that the Treasurer's office does not inform the board about major decisions you cite as an example that the city treasurer and city auditor stopped using old bank accounts as of June 30, 2007 and opened new bank accounts without the knowledge of the Board or retirement staff. The City Treasurer solicited new proposals for banking services effective July 1, 2007. The change in banks resulted in substantial savings in bank charges and fees. The accounts were frozen as of the transfer date and no new transactions have been processed to this account, except for non-operating transfers which is the customary practice. Copies of all bank statements are routinely mailed to the SCRS staff keeping them informed of the change in banks.

The board will take under advisement your notation that a board vote was taken in 2005 to have an annual independent audit. Additionally we will consider your suggestion of a supplementary regulation requiring the services of a CPA to monthly perform a reconciliation of all cash accounts.

We agree with your suggestion of tracking consultant recommendations and will direct our staff to add a section to the board minutes for a monthly status report.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

2. Bank Statements

The Springfield Retirement System does not have access to all of the Springfield Retirement System bank statements. Currently, only the Treasurer's Office has access to the retirement system's bank records. This access is appropriate to properly segregate functions; however, the auditor requested original copies of bank statements from the bank of record and was told by an employee of the Treasurer's Office that all original bank statements must be sent to the Treasurer's Office before they can be sent to the Retirement Office. Retirement system employees do not have direct access to copies of the Board's bank statements.

Recommendations: Proper financial control procedures require that the Springfield Retirement Staff have direct bank access to review all Springfield Retirement System bank statements. Currently, only the Treasurer's Office controls expense and payroll retirement bank records.

Board Response:

This has been a repeated source of confusion with the SCRS staff, but we have confirmed that since November of 2007, the City Treasurer provided the SCRS staff with on-line access directly with the bank for all their banking activity. Additionally, the Treasurer provided copies of all monthly bank statements to the SCRS staff via email. As a further precaution, since January 2009, the Treasurer has arranged for monthly bank statements to be mailed to the SCRS directly from the bank

3. Communications

The auditor observed communication issues related to cash accounting between the Springfield Retirement Staff and the Treasurer's Office. The Accounting Staff is constantly trying to obtain background accounting details on retiree payroll, expenses, adjustments and fund transfers. The focal point for this accounting information is called a 'Cash Report'. The Cash Report is a hand written record of weekly financial transactions. The Retirement Staff receives information after the fact with respect to accounting for payroll, expenses, adjustments and fund transfers. These Cash Reports were provided by the Treasurer's Office and were the primary worksheets to develop cash balances in the General Ledger (rather than reconciled bank statements as commented on in the first item). Cash related accounting issues were covered in the January 1, 1994 to December 31, 1996 audit and in each three-year audit up to the current FY 2006 examination: FY 1996: "General Ledger balance and the reconciled Treasurer's balance have not been reconciled in many years"; FY 1999: "Springfield Retirement System does not obtain or review the monthly cash reconciliation's performed by the City of Springfield Treasurer's Office"; FY 2003: "A comparison between the Springfield Retirement System's General Ledger and the City of Springfield's Treasury Office's reconciliation of the retirement systems cash bank accounts resulted in an unexplainable difference of \$302,548.26". Comments made by the Administrator in a letter to Robert Stalnaker, PERAC's Executive Director in 1996, stated that "Clearly communication and reconciling of cash between the Treasurer's Office and the retirement system has been inconsistent at best".

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

Recommendations: After reviewing existing procedures for accounting for cash, the auditor recommends that copies of all original source documents be collected by the Springfield Retirement System and the Springfield Retirement Accounting Staff prepare or work with a Certified Public Accounting firm to prepare the Cash Report or similar worksheet summarizing weekly and/or monthly activity. Further, the Springfield Retirement System or a Certified Public Account should perform monthly cash reconciliations approved by the City Treasurer. By adopting this procedure, communication issues between the Treasurer's Office and the Retirement System should be minimized. For purposes of internal control, as noted above, the City Treasurer, as custodian of the retirement system's funds, can perform his/her statutory requirement by approving the monthly reconciliations of retirement system cash accounts.

The City Treasurer's Office can still transfer funds approved by the Board; that is, proper internal financial control procedures require that the Springfield Retirement Staff receive from the City Treasurer's Office valid documentation of financial records authorizing fund transfers between cash accounts. The Springfield Retirement System must reconcile and understand, monthly, all money transfers approved by the Board and preformed by the Treasurer's Office.

This recommendation places an additional burden on the Retirement Staff and may require a reorganization of staff duties and responsibilities. The minutes of the July 20, 2006 Board Meeting suggest that the retirement office can be streamlined by having one employee dedicated to working the counter and answering telephones so that the remaining staff members can perform their daily tasks such as processing refunds, calculating retiree payrolls, etc. Further, considering the demands on existing staff members who will be implementing PERAC'S suggestions as well as the recommendations of consulting firms (for example, L.R. Wechsler, Ltd. and Financial Advisory Associates Ltd.) the Board might consider hiring an additional staff member with an accounting background to spread the current workload as well as provide cross-training with all disciplines.

Board Response:

As a recommendation to minimizing communication issues between the SCRS staff and the City Treasurer staff, all copies of current source documents are being sent to the SCRS. The Treasurer uses *QuickBooks* software to record all checkbook activity which has replaced the prior cash reports and is submitted to the SCRS on a timely basis. Currently SCRS staff reconciles the *QuickBooks* activity to the bank statements to ensure all transactions are recorded to the general ledger. As discussed in Item I above, the board has engaged a CPA firm to implement standard operating procedures for both the Treasurer and SCRS staffs to ensure timely reconciliations and recording of all transactions. The hiring of additional staff and cross-training existing staff will be taken under consideration and we will look to our new executive director for direction in implementing this recommendation.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

4. Payroll

The city reconciles some fifty-four (54) monthly cash accounts for various city departments including retirement's payroll account. Although the Treasurer's Office has recently converted to a new ADP payroll system to more efficiently handle this high volume; the auditor questions whether or not the retirement system is adequately serviced by the Treasurer's Office. Many issues such as address changes, deductions for taxes, direct deposits, rejects, voids, etc. can better be handled directly by the Retirement Staff. To further complicate matters, the retirement office is located in a City Hall annex some two miles away from City Hall. Retiree payroll questions sometimes go to the Treasurer's Office, sometimes to ADP payroll, and sometimes to the retirement office.

Recommendation: It is the auditor's opinion that the Springfield Retirement Board can prepare and issue retiree payroll checks. The Retirement Board can also consider hiring an outside consultant to determine if it would be more efficient to have the Retirement System prepare and issue monthly retiree paychecks or continue to allow the Treasurer's Office to administer the retiree payroll system. It is important to note that the Springfield Retirement System already has an accounting system that is used by many Massachusetts Retirement Systems and that system is perfectly adequate to Springfield's retirement needs. This recommendation was subsequently noted in one of Wechsler's reports.

Board Response:

The board agrees with this recommendation and has directed the SCRS staff to begin the implementation plan to have the retirement payroll ready for in-house processing by January 2010.

5. Warrants

The Warrant System is an operational control system to control the movement of funds by identifying what the funds are used for, the amount of the funds and Board signatures authorizing the movement of funds. The Accounting Staff is not using the warrant system of controls partly because of late reporting by the Treasurer's Office.

Recommendations: The warrant system was established to enhance internal financial controls. All movement of funds must be approved and authorized by the Springfield Retirement Board using the monthly warrant system. When funds are moved, the Retirement Staff must verify each transfer against the warrants approved by the Board using original bank statements, not city worksheets (e.g., "Cash Reports"). The Retirement Administrator and Retirement Board Chairman are aware of and approve all movement of funds by the Springfield Treasurer's Office by the warrant process; however, monies are moved by the Treasurer's Office ADP Payroll Department without the Board's knowledge or approval. A more current example of fund movement by the City may help demonstrate the need for controlling funds: The City ADP Payroll Department deducted \$71,859.29 (charges for overaged dependents and same sex unions) from the retirement's payroll account without using the warrant system or without the knowledge of the Retirement Staff. In short, funds left the system without the system's knowledge or approval.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

Board Response:

The SCRS prepares monthly warrants approved by the board which is the formal authorization for the Treasurer to disburse funds on our behalf. The City Treasurer is authorized to transfer money between SCRS bank accounts without a warrant but is not authorized to withdraw any funds from our bank accounts without a properly approved warrant. The example cited by the auditors was related to retiree payroll deductions covered by the approved gross payroll warrant initiated by the SCRS staff. Payroll deductions are not paid through the warrant process to avoid duplicating the expenditure. The city's benefit department is responsible for retiree payroll deductions for health insurance and is not subject to SCRS approval. The benefits department works directly with city employees and retirees and handles all related payroll deductions accordingly. The disbursement cited was the city merely transferring retiree health insurance payroll deductions. This should have been explained in the Treasurer's *QuickBooks* entry. We will ask Melanson and Heath to recommend the best way to handle payroll deductions when developing the standard operating procedures referred to in Item I.

6. Authorization of Fund Transfers

On January 19, 2005, the Board authorized the City Auditor, the Chairman or the Administrator "to be the Authorized Initiators and Authorized Verifiers" to make fund transfers and capital call transfers. This authorization was made without implementing proper internal financial controls. The Retirement Staff stopped receiving the necessary original documentation to verify what monies have been moved between financial accounts. The retirement staff does receive Cash Reports; however, as noted above, these are not valid signed documents authorizing the movement of funds, and in most cases, they lack backup details.

An example of a fund transfer occurred on October 30, 2007 when \$20,162,056.31 of appropriation funds due in July were transferred from the city to the Retirement System. \$16,500,000 was deposited in the PRIT Fund and the remaining \$3,662,056.31 stayed in retirement savings. When this transaction was reviewed by the auditor three weeks later, not one person in the Retirement Staff could answer what the \$3,662,056.31 was for and why the distribution transaction was made (written explanations were not given to the retirement staff). Later, a Springfield Pension Analyst was verbally given different scenarios for the \$3,662,056.31. Continuing with this example, the city owed \$19,442,269.19 as of July 1, 2007; however, \$20,162,056.31 was received by the Retirement System on October 30, 2007 (a difference of \$719,787.12), some four months late. When this transaction was reviewed by the auditor three weeks later, not one person in the Retirement Staff could answer what the \$719,787.31 was for and why the transaction was made (written explanations were not given to the retirement staff).

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

Recommendation: The only reason for singling out the \$20,162,056.31 transaction is to demonstrate the lack of internal controls and continuing communications issues. The retirement system lost four months of interest on this transaction. Furthermore, all future transfers of city funds to the Retirement System must first be deposited in the PRIT Fund and then distributed from the PRIT Fund (rather than deposited in more than one fund as noted above). It is the recommendation of this audit that the Board revise the January 19, 2005 minutes authorizing the City Auditor, the Chairman or the Administrator to be the authorized initiators and authorized verifiers of fund transfers and capital call transfers unless authorized by the Board via the monthly warrant system of internal controls. Specifically, only the Chairman or the Administrator, through the use of two or more signatures on the warrants, should authorize the Treasurer's Office to move funds. In addition, we recommend that the Board review and document all procedures to ensure the Board's objectives are being met. As noted above, we recommend that the Retirement Staff stop using the 'Cash Reports' as original source documentation to make daily journal entries.

Accounting entries must be prepared by the Retirement Staff using original source documents such as: bank statements, investment statements, expense invoices, etc. Penciled Cash Reports are not source documents. Lastly, the Board should authorize original copies of bank statements to be sent to the Retirement System as well as the Treasurer's Office.

Board Response:

The transaction cited was explained to the PERAC auditor and we are surprised to see this included in your draft report. The SCRS is carrying a "credit" balance from a prior year overpayment allegedly made by the city. Before the board approves the refund back to the city the board has asked the staff for the source documentation surrounding this "credit". Apparently, the "credit" precedes the SCRS records retention and we are unable to ascertain the source or year of the "credit". As for the \$20M transaction, in October, the city elected to pay the balance of their entire appropriation in one lump sum instead of over the remaining months. The appropriation was paid early, not four months late as cited by the auditor. The reason for the confusion with the SCRS staff is because of the "credit" referred to above. The City has never been notified to pay less than the PERAC approved appropriation amount. Again, this was explained to the PERAC auditor. The transfer to the PRIT fund was approximately \$3.6M less to leave enough in the account to cover the monthly retirement payroll. Transfers from the PRIT fund to cover SCRS expenditures have historically been processed by the City Auditor who is also a board member and is authorized to initiate them. In order to prevent this confusion in the future, all transfers are now initiated by SCRS staff to insure they understand how they were initiated. The City Auditor no longer handles any fund transfers. As discussed in Items 2 and 3 above, the SCRS staff receives bank statement directly from the bank each month, and Treasurers cash reports are no longer used as source documents by the SCRS staff.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

(Continued)

7. Supplemental Regulations for Part-Time Work

The Board grants full time creditable service to part time employees at the time of retirement. This was discussed during the January 19, 2005 Board Meeting and subsequently tabled by majority vote. During the July 25, 2005 Board Meeting the Administrator 'explained that a member working part time for their full career is given full time creditable service at retirement time". And, "...this has been the past practice for many years and to our knowledge no written regulation was submitted to PERAC". A written procedure for crediting part-time employment was to be submitted for a vote by the Board Members at the next Board meeting but such a vote was never taken.

Recommendation: The Springfield Retirement System must draft a Supplemental Regulation to clarify full and part-time creditable service. All Supplemental Regulations adopted by the Board must be submitted to PERAC for approval pursuant to G.L. c. 32, § 21(4) and 840 CMR 14.00. If not submitted and approved, they may not be considered in effect and enforceable.

Board Response:

At our June, 2009 meeting the board's attorney presented a draft set of proposed supplementary regulations to clarify full and part-time creditable service. The board expects to approve the regulations soon.

8. Appropriations

- A. A review of the appropriations showed that the City of Springfield (due to the allocation of funds to the Massachusetts Career Development Institute, Inc. [MCDI, Inc.]) underpaid its required annual appropriation by \$57,144 in FY 2006 and \$39,684 in FY 2007.

Recommendation: The Board is obligated to collect the full amount of the assigned appropriations from the City of Springfield. Interest of 8.5% should be added to the amount due.

- B. In many instances, large sums of money for multiple purposes were transferred to the Retirement System from the City in one lump sum making it difficult to determine what the funds were for and how the funds should be accounted. For example, one transfer might contain appropriation funds for the museum, library, school, City, community development, grant funds, etc. without specifically identifying where the money should go. In short, this method does not reflect sound accounting principles, resulting in a situation that has to be supported by worksheets and many entries.

Recommendation: Specific transfers for specific purposes should be sent to the Retirement Office. Future allocations of assigned appropriations must be defined as: The City of Springfield, the Springfield Housing Authority and the Springfield Water and Sewer Commission.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

(Continued)

Board Response:

The three employers of the System (City of Springfield, Water Sewer Commission and the Springfield Housing Authority) have agreed to make an annual appropriation payment to the SCRS. All units have agreed to issue their payments, in full, on or before July 1, of each year. The SCRS is aware that the Massachusetts Career Development Institute, Inc. has a balance due for their appropriation for 2007. The SCRS is aware of its obligation to collect the funds and will work with our attorney toward finding a resolution to this matter.

9. Annual Statement

- A. The Annual Statements filed by the Board for the three-year audit period were reviewed. It was determined that certain line item amounts contained in the Annual Statement did not match the detailed supporting schedules. Variances were found between the Assets & Liability page and Supporting Schedule A for Accounts Receivable of \$542,725. Details in Equities on Schedules 4A and 4C do not tie to the Equities on the Investment Income page of \$115,506. Realized Gains and Losses in all years did not balance to supporting schedules. Schedule 6, Summary of Investments was not submitted to PERAC.

Recommendation: The Annual Statement and supporting schedules are the primary source of financial information for third parties. Prior to submission of the Annual Statement, a review process should be established to ensure all entries on the Annual Statement agree with the detailed supporting schedules using the PERAC Annual Statement Guide published each year. Differences should be corrected and reconciled to the General Ledger prior to submission of the Annual Statement to PERAC.

- B. Cash of \$105,495.77 reported in the FY 2006 Assets & Liability page was misreported and unsubstantiated because the balances were not based on reconciled bank statements. The reported balances are the 'best estimates of the Retirement Staff based on documented warrants dictating receipts and disbursements of funds by the Board. Fortunately, actual cash balances were determined by an outside consultant and the actual cash balance was \$103,902.01, a difference of only \$1,593.76. To arrive at this remarkably small difference of \$1,593.76, there were 11 undistributed transactions worth (\$37,529), mostly GIC insurance underpayments; 12 unresolved bank transaction errors worth (\$6,942); 18 general ledger items worth \$120,105 and 37 credit reconciling items worth (\$114,214) and netting items worth \$38,580.

Recommendation: Generally Accepted Accounting Principles (GAAP) and the Sarbanes-Oxley Act of 2002 deal with factual accounting, reporting practices and enhanced financial disclosure. It is in this spirit that whenever a reporting issue arises when publishing an Annual Statement or other financial document, that issue must be disclosed. Further, Section 404 of the Sarbanes-Oxley Act requires management to document the adequacy of financial reporting and internal controls (NOTE: the Sarbanes-Oxley Act does not directly apply to public pension systems). PERAC recommends that all financial reports be based on supported facts and if unsupported for any reason, that reason or the reasons be footnoted in full detail on all financial reports.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

Board Response:

A. The SCRS made the necessary corrections to the assets and liabilities and accounts receivables after submitting its annual statement for 2006. These adjustments were verified with the PERAC auditors and resubmitted to PERAC for final review.

B. The cash issue is currently being processed to bring the SCRS in compliance with its bank statements and it is the determination of this system to have the items in question verified and balanced. The annual statement will be reviewed and all the accounts of the General Ledger will be verified.

10. Member's Annuity Savings

Monthly funds from member contribution rates are collected and held in the Annuity Savings Fund. The Springfield Retirement System did not annually notify membership of monies held in their Annuity Savings Account in FY 2004 and FY 2005.

Recommendation: The Springfield Retirement System must annually report to their membership the individual balances maintained in their Annuity Savings Account.

Board Response:

A plan to report to all the members of the system on their annuity savings fund will be implemented as soon as the 2008 membership and retiree payrolls are reconciled and downloaded to the TACS System. The TACS System has several options built in to the member module for producing the member statements. The SCRS staff will work on this issue as soon as all accounts are verified and posted.

11. Pension Fund:

As of 12/31/2006, the Pension Fund had a negative balance of \$63.8M. Fund transfers have not been made to resolve the situation.

Recommendation: The Board must ensure the Pension Fund always has a positive balance. They must review the balance at year-end and make any necessary transfers before year-end closing.

Board Response:

The PERAC auditor has worked with the staff to determine the amount of transfer needed for the 2008 Annual Statement to bring the pension fund to a positive balance. An amount to be determined will be forwarded to PERAC for approval before the year end closing.

FINAL DETERMINATION:

PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.

STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31,		
	2006	2005	2004
Net Assets Available For Benefits:			
Cash	\$105,496	\$1,104,078	\$936,392
Short Term Investments	773,294	551,487	5,778,286
Fixed Income Securities	0	0	73,879,129
Equities	0	0	85,855,868
Pooled Domestic Equity Funds	0	0	46,302,361
Pooled Global Equity Funds	0	0	44,995,591
Pooled Alternative Investment Funds	6,579,778	6,080,276	7,875,160
PRIT Cash Fund	1,008,459	1,006,580	0
PRIT Core Fund	270,085,815	247,229,618	0
Interest Due and Accrued	3,446	1,092	757,747
Accounts Receivable	13,416,513	12,767,177	4,018,986
Accounts Payable	(29)	(60,804)	(7,213,330)
Total	<u>\$291,972,772</u>	<u>\$268,679,503</u>	<u>\$263,186,189</u>
Fund Balances:			
Annuity Savings Fund	\$117,270,972	\$114,654,856	\$110,569,731
Annuity Reserve Fund	51,648,303	50,892,033	51,950,886
Pension Fund	(63,801,723)	(46,000,653)	(28,410,865)
Military Service Fund	90,244	89,823	26,410
Pension Reserve Fund	186,764,976	149,043,445	129,047,028
Total	<u>\$291,972,772</u>	<u>\$268,679,503</u>	<u>\$263,183,189</u>

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2004)	\$105,842,070	\$52,965,201	(\$20,446,790)	\$26,043	\$0	\$117,657,975	\$256,044,499
Receipts	10,879,446	1,551,870	24,547,747	366	1,688,231	21,564,391	60,232,051
Interfund Transfers	(3,557,911)	3,372,329	10,360,921	0	0	(10,175,339)	0
Disbursements	(2,593,873)	(5,938,514)	(42,872,744)	0	(1,688,231)	0	(53,093,361)
Ending Balance (2004)	110,569,732	51,950,886	(28,410,866)	26,409	0	129,047,027	263,183,189
Receipts	10,691,223	1,530,830	25,724,591	63,413	2,109,654	19,996,229	60,115,940
Interfund Transfers	(3,615,700)	3,616,368	(856)	0	0	189	0
Disbursements	(2,990,398)	(6,206,051)	(43,313,523)	0	(2,109,654)	0	(54,619,626)
Ending Balance (2005)	114,654,857	50,892,033	(46,000,654)	89,822	0	149,043,445	268,679,503
Receipts	12,224,105	1,522,736	26,642,572	421	2,280,076	37,724,657	80,394,567
Interfund Transfers	(5,435,281)	5,438,407	0	0	0	(3,126)	(0)
Disbursements	(4,172,708)	(6,204,873)	(44,443,642)	0	(2,280,076)	0	(57,101,299)
Ending Balance (2006)	<u>\$117,270,972</u>	<u>\$51,648,303</u>	<u>(\$63,801,723)</u>	<u>\$90,244</u>	<u>\$0</u>	<u>\$186,764,976</u>	<u>\$291,972,772</u>

STATEMENT OF RECEIPTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2006	2005	2004
Annuity Savings Fund:			
Members Deductions	\$10,633,898	\$9,710,865	\$9,649,821
Transfers from Other Systems	494,849	140,162	269,898
Member Make Up Payments and Re-deposits	434,967	197,814	225,709
Member Payments from Rollovers	0	0	117,892
Investment Income Credited to Member Accounts	660,392	642,382	616,126
Sub Total	<u>12,224,105</u>	<u>10,691,223</u>	<u>10,879,446</u>
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	<u>1,522,736</u>	<u>1,530,830</u>	<u>1,551,870</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	400,391	411,239	360,311
Pension Fund Appropriation	815,176	1,504,614	0
	<u>25,427,005</u>	<u>23,808,738</u>	<u>24,187,436</u>
Sub Total	<u>26,642,572</u>	<u>25,724,591</u>	<u>24,547,747</u>
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	0	62,987	0
Investment Income Credited to the Military Service Fund	421	426	366
Sub Total	<u>421</u>	<u>63,413</u>	<u>366</u>
Expense Fund:			
Investment Income Credited to the Expense Fund	<u>2,280,076</u>	<u>2,109,654</u>	<u>1,688,231</u>
Sub Total	<u>2,280,076</u>	<u>2,109,654</u>	<u>1,688,231</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	939,995	1,577,633	761,480
Interest Not Refunded	35,709	58,885	43,975
Miscellaneous Income	4,201	37	90
Excess Investment Income	36,744,752	18,359,674	20,758,846
Sub Total	<u>37,724,657</u>	<u>19,996,229</u>	<u>21,564,391</u>
Total Receipts	<u>\$80,394,567</u>	<u>\$60,115,940</u>	<u>\$60,232,051</u>

STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2006	2005	2004
Annuity Savings Fund:			
Refunds to Members	\$3,507,471	\$2,408,208	\$1,861,686
Transfers to Other Systems	<u>665,237</u>	<u>582,189</u>	<u>732,187</u>
Sub Total	<u>4,172,708</u>	<u>2,990,398</u>	<u>2,593,873</u>
Annuity Reserve Fund:			
Annuities Paid	6,199,574	5,827,688	5,628,091
Option B Refunds	<u>5,299</u>	<u>378,363</u>	<u>310,423</u>
Sub Total	<u>6,204,873</u>	<u>6,206,051</u>	<u>5,938,514</u>
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	29,443,445	28,885,543	28,460,693
Survivorship Payments	2,150,364	1,882,857	1,790,226
Ordinary Disability Payments	498,390	492,838	452,625
Accidental Disability Payments	9,164,964	8,720,295	8,450,111
Accidental Death Payments	1,836,747	1,959,952	1,917,188
Section 101 Benefits	264,000	264,000	264,000
3 (8) (c) Reimbursements to Other Systems	<u>1,085,731</u>	<u>1,108,038</u>	<u>1,537,900</u>
Sub Total	<u>44,443,642</u>	<u>43,313,523</u>	<u>42,872,744</u>
Military Service Fund:			
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:			
Board Member Stipend	11,250	10,500	13,500
Salaries	314,579	323,569	288,670
Legal Expenses	51,259	35,625	18,581
Medical Expenses	72	113	50
Travel Expenses	0	1,449	27
Administrative Expenses	28,924	33,533	90,367
Furniture and Equipment	11,561	28,771	29,451
Management Fees	1,729,632	1,434,334	746,158
Custodial Fees	58,934	146,039	344,863
Consultant Fees	26,050	46,667	70,575
Rent Expenses	20,400	20,400	56,092
Fiduciary Insurance	<u>27,416</u>	<u>28,656</u>	<u>29,897</u>
Sub Total	<u>2,280,076</u>	<u>2,109,654</u>	<u>1,688,231</u>
Total Disbursements	<u>\$57,101,299</u>	<u>\$54,619,626</u>	<u>\$53,093,361</u>

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2006	2005	2004
Investment Income Received From:			
Cash	\$27,385	\$232,958	\$129,333
Short Term Investments	27,060	29,739	743
Fixed Income	0	3,226,380	4,977,091
Equities	29,976	1,101,594	1,201,511
Pooled or Mutual Funds	8,523,066	3,439,730	792,289
Commission Recapture	0	0	68,541
Total Investment Income	<u>8,607,486</u>	<u>8,030,402</u>	<u>7,169,507</u>
Plus:			
Realized Gains	17,153,584	39,870,916	6,703,162
Unrealized Gains	26,750,569	18,943,223	24,345,107
Interest Due and Accrued on Fixed Income Securities - Current Year	<u>3,446</u>	<u>1,092</u>	<u>757,747</u>
Sub Total	<u>43,907,599</u>	<u>58,815,230</u>	<u>31,806,015</u>
Less:			
Paid Accrued Interest on Fixed Income Securities	0	(390,057)	(891,451)
Realized Loss	(828,361)	(7,630,610)	(6,171,059)
Unrealized Loss	(10,477,255)	(35,424,251)	(6,120,417)
Interest Due and Accrued on Fixed Income Securities - Prior Year	<u>(1,092)</u>	<u>(757,747)</u>	<u>(681,039)</u>
Sub Total	<u>(11,306,708)</u>	<u>(44,202,665)</u>	<u>(13,863,966)</u>
Net Investment Income	<u>41,208,377</u>	<u>22,642,966</u>	<u>25,111,557</u>
Income Required:			
Annuity Savings Fund	660,392	642,382	616,126
Annuity Reserve Fund	1,522,736	1,530,830	1,551,870
Military Service Fund	2,280,076	2,109,654	1,688,231
Expense Fund	<u>421</u>	<u>426</u>	<u>366</u>
Total Income Required	<u>4,463,625</u>	<u>4,283,292</u>	<u>3,856,592</u>
Net Investment Income	<u>41,208,377</u>	<u>22,642,966</u>	<u>25,111,557</u>
Less: Total Income Required	<u>4,463,625</u>	<u>4,283,292</u>	<u>3,856,592</u>
Excess Income To The Pension Reserve Fund	<u>\$36,744,752</u>	<u>\$18,359,674</u>	<u>\$21,254,964</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2006			
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED
Cash	\$105,496	0.0%	100%
Short Term	773,294	0.3%	100%
Pooled Alternative Investment Funds	6,579,778	2.4%	3%
PRIT Cash Fund	1,008,459	0.4%	100%
PRIT Core Fund	<u>270,085,815</u>	<u>97.0%</u>	<u>100%</u>
Grand Total	<u>\$278,552,841</u>	<u>100.0%</u>	<u>100.0%</u>

For the year ending December 31, 2006, the rate of return for the investments of the Springfield Retirement System was 16.48%. For the five-year period ending December 31, 2006, the rate of return for the investments of the Springfield Retirement System averaged 7.73%. For the twenty-two-year period ending December 31, 2006, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Springfield Retirement System was 9.84%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Springfield Retirement System submitted the following supplementary investment regulations, which were approved by the Public Employee Retirement Administration Commission on:

March 20, 2001

16.08 In accordance with PERAC Investment Guideline 99-3, the Springfield Retirement System may invest in Crescendo Ventures Management – Crescendo V, L.P. The System has been an investor in Crescendo's previous limited partnerships and has achieved very favorable investment results.

19.01(7)(a)(6) The Springfield Retirement System may invest in the Crescendo V, L.P. whose fee structure differs from that noted in the above-noted regulation but which is compatible with standard industry practice.

January 4, 2000

16.08 In accordance with PERAC Investment Guideline 99-3, the Springfield Retirement Board may invest in Boston Millennia Partners II, L.P. The System has submitted the required documents, including an analysis of its investment in Boston Millennia Partners' previous partnership.

June 24, 1998

20.09(1) Venture capital investments shall not exceed 3% of the total market value of the portfolio at the time of the investment provided that in any system with assets in excess of nineteen million dollars, venture capital investments may be made up to an amount equal to 5% of the total market value of the portfolio at the time of investment, shall be considered a separate asset class, and provided further that:

- (a) the board does not participate in the selection of the personnel responsible for making venture capital investments or otherwise exercise discretion in business affairs and should this be required, prior to any participation by the board, the board shall consult with PERAC to determine the appropriate course of action;
- (b) such personnel retain authority in the decision making process, and
- (c) should an investment in venture capital result in the direct ownership of securities, such shall be permitted only until such time as divestiture is prudent.

20.09(2) Venture capital investments shall only be made in venture capital funds operated by venture capital firms having their principal places of business in the United States.

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

20.09(3) All venture capital investments shall be made in companies, which have their principal places of business in the United States.

20.09(3) All venture capital investments shall be made in companies, which have their principal places of business in the United States.

October 2, 1998

19.01(7)(a)(6) The range of fees that are considered tolerable, provided, however, that in no event shall a Board retain a qualified investment manager whose fee is based on a percentage of committed capital, provided, however, that such a fee may be paid for one year after the partnership commences operations, and provided further, that such a fee is paid by all investors; (6a) the board, however, may retain Boston Millennia Partners, L.P. and pay compensation according to the fee schedule submitted to PERAC provided that all investors pay such a fee. (6b) the board, however, may retain DN Partners, L.P. and pay compensation according to the fee schedule submitted to PERAC provided that all investors pay such a fee. (6c) the board, however, may retain IAI World Fund, L.L.C. and pay compensation according to the fee schedule submitted to PERAC provided that all investors pay such a fee. (6d) the board, however, may retain Ticonderoga Partners IV, L.P. and pay compensation according to the fee schedule submitted to PERAC provided that all investors pay such a fee.

August 13, 1997

20.03(1) Equity investments shall not exceed 47% of the portfolio valued at market, including international equities, which shall not exceed 15% of the portfolio valued at market.

20.03(2) At least 36% but no more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year.

20.04(1) United States based corporations and equities of foreign corporations.

20.07(1) The issuer of equity securities must have a publicly available operating record of at least five years, including past performance resulting from mergers, acquisitions, and spinoffs. Equity securities, however, may be purchased at the time of an Initial Public Offering (IPO) provided that the total value of investments with a publicly available operating record of less than five years shall not exceed 5% of the total equity market value.

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

20.07(5) Equity investments shall be made only in securities listed on a United States stock exchange, traded over the counter in the United States, or listed and traded on a foreign exchange.

20.07(9) Commingled real estate shall not exceed 10% of the total book value of the portfolio at the time of purchase provided that:

(a) the retirement board does not participate in the selection of personnel responsible for making real estate investments and should this be required, prior to any participation by the board, the board shall consult with PERAC to determine the appropriate course of action;

(b) such personnel retain authority in the decision making process, and

(c) should an investment in real estate result in the direct ownership of real estate or mortgage indebtedness, such shall be permitted only until such time as divestiture is prudent.

NOTES TO FINANCIAL STATEMENTS

NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Springfield Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

ADMINISTRATION

There are 106 contributory Retirement Systems for public employees in Massachusetts. Each system is governed by a retirement board, and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements, and a uniform accounting and funds structure for all systems.

PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal, or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 3 classes of membership in the Retirement System:

Group 1:

General employees, including clerical, administrative, technical, and all other employees not otherwise classified.

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire no later than the end of month they attain age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

A member is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year average salary. For veterans as defined in G.L. c. 32, § 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

- Salary is defined as gross regular compensation.
- Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last three years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age, but the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

DEFERRED VESTED BENEFIT

A participant who has completed 10 or more years of creditable service is eligible for a deferred vested retirement benefit. Elected officials and others who were hired prior to 1978 may be vested after 6 years in accordance with G.L. c. 32, § 10.

The participant's accrued benefit is payable commencing at age 55, or the completion of 20 years, or may be deferred until later at the participant's option.

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. Employees who first become members on or after January 1, 1984, may receive only limited interest on their contributions if they voluntarily terminate their service. Those who leave service with less than 5 years receive no interest; those who leave service with greater than 5 but less than 10 years receive 50% of the interest credited.

NOTES TO FINANCIAL STATEMENTS (Continued)

DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

ORDINARY DISABILITY

Eligibility: Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, § 6(I) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching “maximum age”.

Retirement Allowance: Equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

ACCIDENTAL DISABILITY

Eligibility: Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$687.96 per year in (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, § 7(2) (a)(iii) has not been adopted), per child who is under 18 at the time of the member’s retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution.

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DEATH

Eligibility: Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$312 per year, per child, payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries resulting in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death.

In addition, an eligible family member may receive a one time payment of \$100,000 from the State Retirement Board.

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000.

DEATH IN ACTIVE SERVICE

Allowance: An immediate allowance equal to that which would have been payable had the member retired and elected Option C on the day before his or her death. For death occurring prior to the member's superannuation retirement age, the age 55 benefit rate is used. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child, and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

NOTES TO FINANCIAL STATEMENTS (Continued)

COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. The first \$12,000 of a retiree's total allowance is subject to a cost-of-living adjustment. The total Cost-of-Living adjustment for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

Option A: Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

Option B: A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who remains unmarried for a member whose retirement becomes effective on or after February 2, 1992, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up") based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

NOTES TO FINANCIAL STATEMENTS (Continued)

ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Springfield Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission on:

August 8, 2002

Educational Incentive Compensation provided in the contract between the City of Springfield and the International Association of Firefighters AFL-CIO, Local 648 are regular compensation for retirement purposes. Pursuant to 840 CMR 15.03(1)(e), any amounts paid as educational incentives are regular compensation.

February 28, 2000

Election Regulations

1. Call of the Election and Notice of Election - Not less than 120 days prior to expiration of the term of office an elected member of the Retirement Board, the Director shall notify the Retirement Board of a duly called meeting of the Retirement Board of the need to conduct an election. At this meeting of the Retirement Board, the Board shall designate an Election Officer who maybe a member of the Board or a staff member. The Election Officer shall have the duties and be governed by the procedures set forth in 840 CMR 7.03.

At this meeting of the Retirement Board, the Board shall provide a notice of election which notice shall provide for an election date at least ninety days after date of the mailing of the notice of election to all retired members and posting of the notice pursuant to 840 CMR 7.03(2). The notice of election shall state the time, date, place and manner of election and shall describe nomination and election procedures, including if the election is conducted at a polling place, procedures for voting by absentee ballot.

2. Nomination Procedure - Any member of the retirement system may qualify as a candidate by filing with the Retirement Board a nomination paper or papers, containing the signatures and addresses of at least twenty (20) members of the retirement system. Nomination papers, in blank, shall be made available to candidates at least ninety (90) days prior to the date of the election. The nomination paper or papers, containing the necessary number of qualified signatures and addresses shall be filed no later than forty-five (45) days prior to the date of the election. If the Retirement Board determines that a candidate has filed nomination papers containing less than the required number of qualified signatures, the Retirement Board shall declare the nomination papers invalid and shall notify the candidate of its determination.

3. Election by Declaration - If the Retirement Board determines that only one candidate has been nominated, the Retirement Board shall declare said candidate to be the elected member of the Board, no election shall be held, and said candidate shall take office and serve in all respects as though he or she had been chosen by election.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

4. Official Election Ballot - If the Retirement Board determines that more than one candidate has been nominated, the Board shall immediately prepare an official election ballot. Qualified candidates shall be listed on the official ballot in an order determined by a random drawing of the names of the candidates by the Retirement Board or Election Officer. If the incumbent elected member is nominated, he or she shall be identified as the incumbent on the official ballot.

5. Elections Conducted by Mail or at a Polling Place - Elections shall be conducted either entirely by mail or at one polling place open for not less than ten hours, the time and place to be determined by the Retirement Board. In elections conducted at a polling place, members shall cast their votes on the official ballot in person at the polling place except as provided in Section 6 below.

6. Absentee Ballots - In elections conducted at a polling place members retired from service may vote by absentee ballot and an absentee ballot shall be mailed to each retired member. A member in service may, upon timely request, vote by absentee ballot only if he or she:

(a) will be absent from the City of Springfield during the hours that the polling place will be opened:

(b) will be unable to cast his or her vote in person on the day of the election for reasons of religious belief, or

(c) will be unable to cast his or her vote in person at the polling place by reason of temporary physical disability. Requests for absentee ballots shall be in writing and shall be filed no later than the business day prior to the election. Absentee ballots shall be counted only if received by the Retirement Board no later than the time fixed for the closing of the polls on the day of the election.

7. Tabulation of Ballots - Ballots shall be tabulated by persons designated by Election Officer and may include Retirement Board staff members and/or Election Department employees. The Election Officer shall notify each candidate of the time and location of the tabulation of the ballots and shall permit all candidates, or their representatives, to be present at the tabulation.

8. Election Results - The Retirement Board shall notify each candidate, in writing, and shall give public notice of the results of the election within seven days after the election.

9. Preservation of Ballots - All ballots received by the Retirement Board, including those determined to be invalid, shall be preserved by the Retirement Board for ninety days following the date of the election.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

November 3, 1992

To accept Springfield Police Cadets employed by the City of Springfield on a full time basis into the Retirement System as Group I members, beginning on the first day of employment or if presently employed by the city, effective on the date of the Commissioner of Public Employee Retirement Administration's approval.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the City Auditor who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member: Mark J. Ianello

Appointed Member: Thomas F. Gloster, III Term Expires: 7/1/10

Elected Member: Gerald L. Michaelian Term Expires: 7/1/11

Elected Member: Robert P. Moynihan Term Expires: 7/16/10

Appointed Member: Philip J. Mantoni Term Expires: 2/14/09

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by two persons designated by the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:)	\$50,000,000 Fiduciary,
Ex-officio Member:)	\$1,000,000 Fidelity
Elected Member:)	MACRS Master Policy
Appointed Member:)	St. Paul Travelers, National Union
Staff Employee:		Fire and Arch

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Buck Consultants as of January 1, 2005.

The actuarial liability for active members was	\$254,211,027
The actuarial liability for retired and inactive members was	394,811,938
The total actuarial liability was	649,022,965
System assets as of that date were	<u>276,285,563</u>
 The unfunded actuarial liability was	 <u>\$372,737,402</u>
The ratio of system's assets to total actuarial liability was	42.6%
As of that date the total covered employee payroll was	\$115,382,642

The normal cost for employees on that date was 7.90% of payroll

The normal cost for the employer was 1.3% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.50% per annum

Rate of Salary Increase: 5.00% per annum

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2005

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2005	\$276,285,563	\$649,022,965	\$372,737,402	42.6%	\$115,382,642	323.0%
1/1/2004	\$291,016,758	\$615,605,168	\$324,588,410	47.3%	\$109,937,408	295.2%
1/1/2003	\$266,402,470	\$573,138,293	\$306,735,823	46.5%	\$113,848,147	269.4%
1/1/2002	\$268,001,414	\$570,958,349	\$302,956,935	46.9%	\$137,353,027	220.6%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Retirement in Past Years										
Superannuation	223	45	52	62	89	277	97	129	40	118
Ordinary Disability	2	0	2	2	0	2	1	3	3	0
Accidental Disability	13	12	17	7	5	0	22	24	18	6
Total Retirements	238	57	71	71	94	279	120	156	61	124
Total Retirees, Beneficiaries and Survivors	2,677	2,830	2,677	2,692	2,733	2,844	2,835	3,273	2,721	2,953
Total Active Members	5,103	5,312	5,362	5,219	5,239	5,104	3,413	3,577	3,780	3,639
Pension Payments										
Superannuation	\$18,190,342	\$19,062,478	\$18,775,164	\$19,821,166	\$20,669,537	\$24,179,186	\$26,168,641	\$28,460,693	\$28,885,543	\$29,443,445
Survivor/Beneficiary Payments	1,251,738	1,267,754	1,317,680	1,444,132	1,525,505	1,654,324	1,716,427	1,790,226	1,882,857	2,150,364
Ordinary Disability	458,628	398,941	404,632	441,789	406,552	406,625	434,466	452,625	492,838	498,390
Accidental Disability	6,052,917	6,259,837	6,444,038	6,730,857	6,819,444	7,208,655	7,711,156	8,450,111	8,720,295	9,164,964
Other	2,593,676	2,127,741	2,752,036	2,708,555	2,728,068	2,368,811	3,153,775	3,719,089	3,331,990	3,186,479
Total Payments for Year	<u>\$28,547,301</u>	<u>\$29,116,751</u>	<u>\$29,693,550</u>	<u>\$31,146,499</u>	<u>\$32,149,106</u>	<u>\$35,817,601</u>	<u>\$39,184,465</u>	<u>\$42,872,744</u>	<u>\$43,313,523</u>	<u>\$44,443,642</u>

PERAC

Five Middlesex Avenue | Third Floor
Somerville, MA | 02145

Ph: 617.666.4446 | Fax: 617.628.4002

TTY: 617.591.8917 | Web: www.mass.gov/perac